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S E C R E T SECTION 01 OF 02 LONDON 000052

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TREASURY FOR EPSTEIN

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TAGS: EFIN KTFN PREL PTER ETTC IR UK
SUBJECT: UK CONSIDERING BANK SADERAT OPTIONS

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Classified By: Economic Minister-Counselor Mark A. Tokola for reasons 1
.4 (b) and (d)

¶1. (S/NF) Summary: An HMG intra-agency group met with U.S. Treasury officials to review new "evidence" of illicit activities by Bank Saderat Iran and its London-based subsidiary, Bank Saderat PLC. HMG officials requested further information indicating the London subsidiary is controlled by the Iranian headquarters and not managed as a normal commercial bank. The UK once again indicated that they are serious about this issue and remain interested in any further information we can provide to help them link the London subsidiary with any UK designated terrorist entities. End Summary.

¶2. (S/NF) On December 21, U.S. Treasury officials met with an intra-agency group from the UK to discuss illicit activities of Bank Saderat Iran and its London-based subsidiary, Bank Saderat PLC. The Treasury officials detailed the USG's evidentiary basis for revoking Bank Saderat's U-turn exemption and the reasoning for implementing this financial measure as opposed to other options, such as E.O. 13224 terrorist designation. The Treasury officials detailed information demonstrating that the bank as a whole, including its London subsidiary, acts as a single entity controlled by the Government of Iran (GOI), and that the London subsidiary allows the GOI to mobilize its European-based dollar holdings. The Treasury officials outlined the use of Bank Saderat's London subsidiary as a conduit for funds from the Central Bank of Iran to the account of a Hizballah-controlled organization at Bank Saderat -Beirut.

¶3. (S/NF) Hizballah is not a designated terrorist entity by the UN, EU, or UK, although its military wing, the Islamic Jihad Organization (IJO) or External Security Organization (ESO) is designated by the UK. Additional information provided to the UK suggests that Hamas, Palestinian Islamic Jihad (PIJ) and the Popular Front for the Liberation of Palestine also hold accounts with Bank Saderat in Lebanon, as well as a commercial entity controlled by Hizballah's IJO.

¶4. (U) In September 2006, based on the BSI's ties to terrorist financing, U.S. Treasury took action to cut Bank Saderat off from the U.S. financial system by revoking its ability to participate in U-turn transactions. A U-turn is a USD transaction involving an Iranian entity that is cleared through a U.S. bank by a third-country bank. Generally

speaking, the transaction must originate and terminate with the third-country bank to qualify as a U-turn.

¶15. (S/NF) U.S. Treasury officials had previously met with HMG officials to discuss UK action against BSI's London subsidiary either in the form of a terrorist designation or a regulatory action that could suspend the Bank's license to operate in the UK. In response to HMG questions, U.S. Treasury officials said that they had not yet designated BSI as a terrorist entity but were working on formalizing an E.O. 13224 terrorist designation which could be done in concert with UK action.

¶16. (S/NF) HMG officials requested further information about the links between Bank Saderat's London subsidiary and its Iranian parent. Specifically, they requested help developing the "single entity" concept, the idea that the London subsidiary is controlled by the Iranian headquarters and not managed as a normal commercial bank. HMG officials are particularly interested in the main purpose of the subsidiary's London operations, whether the subsidiary operates separately or only in line with Bank Saderat Iran, and whether the subsidiary is profitable.

¶17. (S/NF) HMG officials are clearly serious about this issue and remain interested in any further information we can provide to help them link the London subsidiary with any UK designated terrorist entities. In the absence of a clear link, HMG officials may pursue regulatory action if they can show that the UK subsidiary operates as part of a "single entity" with Bank Saderat Iran, and that their combined activity is outside of normal banking activities. HM Treasury's Patrick Guthrie said HMG will review the additional information provided by U.S. Treasury over the coming weeks and reconvene as an intra-agency group in early January to discuss possible conclusions and next steps. According to Guthrie, it was too early to tell if the new "evidence" would result in HMG action either through anti-terrorism legislation or through regulatory measures.

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¶18. (SBU) UK officials were led by Head of the Financial Crime Team at HM Treasury Paul Rankin, Financial Crime Sector Leader for the UK Financial Services Authority Philip Robinson, HM Treasury Legal Adviser Stephen Parker, Head of Iran Team at FCO Ben Fender, Patrick Guthrie from HM Treasury, and Louise Proudlove from the Cabinet Office.

¶19. (SBU) Matt Epstein and Kate Bauer from U.S. Treasury cleared this cable.

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Johnson